

**MUSKEGON HEIGHTS HOUSING COMMISSION
MUSKEGON HEIGHTS, MICHIGAN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE**

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

| | | | | | |
|--|--|----------------------------------|--|---|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name MUSKEGON HEIGHTS HOUSING COMM. | County MUSKEGON |
| Fiscal Year End MARCH 31, 2006 | | Opinion Date DECEMBER 6, 2006 | | Date Audit Report Submitted to State DECEMBER 24, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input checked="" type="checkbox"/> | REPORT ON COMPLIANCE AND INTERNAL CONTROL | |
| Certified Public Accountant (Firm Name) BARRY E. GAUDETTE, CPA, PC | | Telephone Number 231-946-8930 | |
| Street Address 1107 E. EIGHTH STREET | | City TRAVERSE CITY | State MI |
| | | Zip 49686 | |
| Authorizing CPA Signature | | Printed Name BARRY E. GAUDETTE, CPA | |
| | | License Number 11050 | |

MUSKEGON HEIGHTS HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

I have audited the accompanying financial statements of the business-type activities of the Muskegon Heights Housing Commission, Michigan, a component unit of the City of Muskegon Heights, as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Muskegon Heights Housing Commission, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Muskegon Heights Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2006, on my consideration of Muskegon Heights Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Heights Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Heights Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Landolt, CPA, PC

December 21, 2006

MUSKEGON HEIGHTS HOUSING COMMISSION
MUSKEGON HEIGHTS, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
March 31, 2006
=====

The Muskegon Heights Housing Commission, created in 1941, by the City of Muskegon Heights provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Muskegon Heights Housing Commission consists of three programs. The first is owned housing, consisting of 347 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 50 qualifying low-income residents for rental housing.

Muskegon Heights Housing Commission had total revenues of \$2,555,919 that includes \$654,468 in rental payments and \$1,816,983 in federal assistance. Total revenues decreased by \$100,179 from the prior year, in part, because capital grants were \$241,870 less than the prior year. Total operating expenses were \$2,694,133, that includes \$477,910 in administrative expenses, \$359,848 in utilities, \$704,182 in ordinary maintenance and operation, \$137,262 in housing assistance payments, and \$832,946 in depreciation expense. The operating expenses decreased by \$113,904, in part, because of across the board cost cutting.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$6,876,455. The Housing Commission's total net assets decreased by \$138,214 from the prior year. The decrease can be attributed, in part, to the the depreciation expense of \$832,946 being more than the capital outlay amount of \$431,418.

Total assets of the Housing Commission were \$7,109,548, of which \$381,901 consisted of current assets and \$233,093 of current liabilities. There was a net decrease in total assets of \$251,101 from the prior year. The decrease is due, in part, because of the depreciation expense being larger than the capital outlay amount.

Financial Highlights (continued)

2006 Financial Audit Economic Analysis:

1. In response to an analysis of the Housing Commission's overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors that significantly affected operating results.

Answer: The Muskegon Heights Housing Commission is a TROUBLED public housing authority that has had that status since QHWRA was enacted and the problems existed prior to the 1998 Regulation. The PHA has improved its financial score on the PHMAP assessment by 11.5 points to a score of 16.5 but short of the 18 points needed to not be considered TROUBLED. However, HUD only extended the PHA's TROUBLED status another 6 months instead of 12 months because of our substantial improvement. PHA operating reserves are up, as are rent collections. Unfortunately, evictions for dwelling lease and community service violations are also up. Evictions are an unpredictable factor that directly impacts the financial bottom line. We are hopeful that evictions will stabilize now that the population understands how consistent we are on lease enforcement.

2. A description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Answer: The Energy Performance Contract work items are completed and the PHA expects to begin seeing savings this winter from this \$1,400,000 investment. Fifty(50) of our public Housing units had their kitchens remodeled from the 2003 Capital Fund Program, leaving 290 units yet in need. These kitchens are 40+ years old and the Housing Commission is in discussions with a company to obtain financing to remodel the 290 kitchens at one time. A loan could be obtained to complete the project, repaying remaining over a 60 month period from our new Capital Fund allocations. Other Capital Fund needs are building foundations allowing water seepage causing electrical junctions and breakers box corrosion. Parking lots drainage systems not connected to City storm drains is another big problem defective building sewer lines.

3. A description of currently known facts decisions or conditions that are expected to have a significant effect on financial position or results of operations.

Answer: The City of Muskegon Heights got a new City Manager who stopped negotiating with the Housing Commission on outstanding money issues each has with the other and hers filed a law suit.

The Housing Commission, who had stopped paying PILOT because the City stopped including the PHA in its citywide curbside garbage pick up contract after 29 years of inclusion in 1992. The Housing Commission's response to the lawsuit complaint will include a counter claim that the Cooperative Agreement between HUD and the City has been violated by the City.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities

Financial Analysis of the Housing Commission

The following combined condensed statement of net assets show a summary of changes for the years ended March 31, 2006 and 2005.

| | <u>2006</u> | <u>2005</u> | <u>Net Change</u> |
|----------------------------------|--------------------|--------------------|----------------------|
| Current assets | \$ 381,901 | \$ 215,133 | \$ 166,768 |
| Restricted cash | | 16,340 | (16,340) |
| Property and equipment | <u>6,727,647</u> | <u>7,129,176</u> | <u>(401,529)</u> |
| Total assets | <u>\$7,109,548</u> | <u>\$7,360,649</u> | <u>\$ (251,101)</u> |
| Current liabilities | \$ 233,093 | \$ 336,774 | \$ (103,681) |
| Noncurrent liabilities | <u></u> | <u>9,206</u> | <u>(9,206)</u> |
| Total liabilities | <u>233,093</u> | <u>345,980</u> | <u>(112,887)</u> |
| Net assets: | | | |
| Invested in capital assets | 6,727,647 | 7,129,176 | (401,529) |
| Restricted | | 16,340 | (16,340) |
| Unrestricted | <u>148,808</u> | <u>(130,847)</u> | <u>279,655</u> |
| Total net assets | <u>6,876,455</u> | <u>7,014,669</u> | <u>(138,214)</u> |
| Total liabilities and net assets | <u>\$7,109,548</u> | <u>\$7,360,649</u> | <u>\$ (251,101)</u> |

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Activities of the Housing Commission for the years ended March 31, 2006 and 2005.

| | <u>2006</u> | <u>2005</u> | <u>Net Change</u> |
|------------------------------------|-----------------------------|-----------------------------|-------------------------|
| Operating revenues: | | | |
| Dwelling rent | \$ 654,468 | \$ 682,140 | \$ (27,672) |
| Nondwelling rent | <u>73,153</u> | <u>3,431</u> | <u>69,722</u> |
| Total operating revenues | <u>727,621</u> | <u>685,571</u> | <u>42,050</u> |
| Operating expenses: | | | |
| Administration | 477,910 | 532,033 | (54,123) |
| Tenant services | 969 | 14,645 | (13,676) |
| Utilities | 359,848 | 395,838 | (35,990) |
| Ordinary maintenance and operation | 704,182 | 668,362 | 35,820 |
| General expenses | 181,016 | 208,969 | (27,953) |
| Extraordinary maintenance | | 11,710 | (11,710) |
| Housing assistance payments | 137,262 | 203,356 | (66,094) |
| Depreciation | <u>832,946</u> | <u>773,124</u> | <u>59,822</u> |
| Total operating expenses | <u>2,694,133</u> | <u>2,808,037</u> | <u>(113,904)</u> |
| Non-operating revenue: | | | |
| Interest income | 2,111 | 2,495 | (384) |
| Operating grants | 1,385,565 | 1,197,469 | 188,096 |
| Capital grants | 431,418 | 673,288 | (241,870) |
| Gain on sale of fixed assets | | 49,186 | (49,186) |
| Other income | <u>9,204</u> | <u>48,089</u> | <u>(38,885)</u> |
| Total nonoperating revenue | <u>1,828,298</u> | <u>1,970,527</u> | <u>(142,229)</u> |
| Change in Net Assets | <u><u>\$ (138,214)</u></u> | <u><u>\$ (151,939)</u></u> | <u><u>\$ 13,725</u></u> |

FINANCIAL STATEMENTS

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF NET ASSETS
March 31, 2006
=====

ASSETS

Current Assets:

| | |
|---------------------------------|------------|
| Cash | \$ 346,411 |
| Accounts receivable-HUD | 10,016 |
| Accounts receivable-tenants | 36,869 |
| Allowance for doubtful accounts | (30,325) |
| Prepaid expenses | 18,430 |
| Inventories | <u>500</u> |

| | |
|----------------------|----------------|
| Total Current Assets | <u>381,901</u> |
|----------------------|----------------|

Property and Equipment:

| | |
|--------------------------------|---------------------|
| Land | 1,402,031 |
| Buildings | 7,696,287 |
| Equipment | 386,424 |
| Building improvements | 9,125,579 |
| Construction in progress | <u>445,267</u> |
| | 19,055,588 |
| Less: accumulated depreciation | <u>(12,327,941)</u> |

| | |
|----------------------------|------------------|
| Net Property and Equipment | <u>6,727,647</u> |
|----------------------------|------------------|

| | |
|--------------|----------------------------|
| Total Assets | <u><u>\$ 7,109,548</u></u> |
|--------------|----------------------------|

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2006

=====

LIABILITIES and NET ASSETS

Current Liabilities:

| | |
|-----------------------------------|---------------|
| Accounts payable | \$ 160,936 |
| Tenant security deposit liability | 39,169 |
| Accrued expenses | <u>32,988</u> |

| | |
|---------------------------|---------|
| Total Current Liabilities | 233,093 |
|---------------------------|---------|

Noncurrent Liabilities:

| | |
|------------------------------|-----------------------------|
| Accrued compensated absences | <u> </u> |
|------------------------------|-----------------------------|

| | |
|-------------------|----------------|
| Total Liabilities | <u>233,093</u> |
|-------------------|----------------|

Net Assets:

| | |
|----------------------------|----------------|
| Invested in capital assets | 6,727,647 |
| Unrestricted net assets | <u>148,808</u> |

| | |
|------------------|------------------|
| Total Net Assets | <u>6,876,455</u> |
|------------------|------------------|

| | |
|----------------------------------|---------------------|
| Total Liabilities and Net Assets | <u>\$ 7,109,548</u> |
|----------------------------------|---------------------|

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006
=====

OPERATING REVENUES:

| | |
|-------------------|---------------|
| Dwelling rent | \$ 654,468 |
| Non-dwelling rent | <u>73,153</u> |

| | |
|--------------------------|----------------|
| Total operating revenues | <u>727,621</u> |
|--------------------------|----------------|

OPERATING EXPENSES:

| | |
|------------------------------------|----------------|
| Administration | 477,910 |
| Tenant services | 969 |
| Utilities | 359,848 |
| Ordinary maintenance and operation | 704,182 |
| General expenses | 181,016 |
| Housing assistance payments | 137,262 |
| Depreciation | <u>832,946</u> |

| | |
|--------------------------|------------------|
| Total operating expenses | <u>2,694,133</u> |
|--------------------------|------------------|

| | |
|------------------------|--------------------|
| Operating income(loss) | <u>(1,966,512)</u> |
|------------------------|--------------------|

NONOPERATING REVENUES:

| | |
|----------------------------|------------------|
| Investment interest income | 2,111 |
| Other income | 9,204 |
| Capital grants | 431,418 |
| Operating grants | <u>1,385,565</u> |

| | |
|-----------------------------|------------------|
| Total nonoperating revenues | <u>1,828,298</u> |
|-----------------------------|------------------|

| | |
|----------------------|------------|
| Change in net assets | (138,214) |
|----------------------|------------|

| | |
|--|-----------|
| Prior period adjustments, equity transfers and correction of errors | (17,880) |
|--|-----------|

| | |
|-----------------------|------------------|
| Net assets, beginning | <u>7,032,549</u> |
|-----------------------|------------------|

| | |
|--------------------|---------------------|
| Net assets, ending | <u>\$ 6,876,455</u> |
|--------------------|---------------------|

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|--------------------|
| Cash received from dwelling and nondwelling rents | \$ 706,881 |
| Cash payments to other suppliers of goods and services | (1,267,099) |
| Cash payments to employees for services | <u>(570,967)</u> |
| Net cash (used) by operating activities | <u>(1,131,185)</u> |

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

| | |
|--|------------------|
| Tenant security deposits | 283 |
| Operating grants | 1,291,909 |
| Other revenue | <u>9,205</u> |
| Net cash provided by noncapital financing activities | <u>1,301,397</u> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

| | |
|---|-----------------------------|
| Capital grants | 431,418 |
| Payments for capital acquisitions | <u>(431,418)</u> |
| Net cash provided by capital and related financing activities | <u> </u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---|---------------|
| Restricted cash decreased | 16,340 |
| Receipts of interest and dividends | <u>2,111</u> |
| Net cash (used) by investing activities | <u>18,451</u> |

| | |
|--------------------------------|---------|
| Net increase(decrease) in cash | 188,663 |
|--------------------------------|---------|

| | |
|-----------------|----------------|
| Cash, beginning | <u>157,748</u> |
|-----------------|----------------|

| | |
|--------------|--------------------------|
| Cash, ending | <u><u>\$ 346,411</u></u> |
|--------------|--------------------------|

MUSKEGON HEIGHTS HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

| | |
|---|-------------------|
| Cash and cash equivalents per balance sheet | \$ 346,411 |
| Restricted cash | |
| | <u>\$ 346,411</u> |

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

| | |
|--|-----------------------------|
| Operating income(loss) | \$(1,966,512) |
| Adjustments to reconcile operating (loss) to net cash(used in) operating activities: | |
| Depreciation | 832,946 |
| Bad debt allowance | 21,504 |
| Adjustments | 11,383 |
| Changes in assets and liabilities: | |
| (Increase) decrease in assets: | |
| Accounts receivable-tenants | (20,740) |
| Prepaid expenses | 1,884 |
| Increase (decrease) in liabilities: | |
| Bank overdraft | (191) |
| Accounts payable | (35,051) |
| Accrued compensated absences | (2,260) |
| Other current liabilities | (3,328) |
| Deferred revenues | (362) |
| Accounts payable-PILOT | <u>29,542</u> |
| Net cash (used) by operating activities | <u><u>\$(1,131,185)</u></u> |

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2006
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Heights Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Muskegon Heights Housing Commission is a component unit of the City of Muskegon Heights, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Muskegon Heights in 1941, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Heights Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3018, the Housing Commission constructed, maintains and operates 347 units of subsidized housing in the City of Muskegon Heights, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 50 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets, restricted and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Muskegon Heights Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

| | |
|------------------------------------|----------|
| Buildings | 40 years |
| Building and land improvements | 15 years |
| Automotive and computers | 5 years |
| Furniture, equipment and machinery | 10 years |

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Restricted net assets indicate the portion of net assets reserved for modernization and development.
- c. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: An employee may accrue vacation leave up to a maximum of two(2) times the amount earned in a year. Except for the Executive Director, unused vacation time in excess of the maximum amount will be forfeited.

Any regular employee leaving the Housing Commission, except if terminated for cause, will be compensated for vacation leave credited and unused up to the date of his/her separation or resignation, provided he/she is given two(2) weeks notice of his/her intention to leave the Housing Commission.

- * Sick leave without pay may be accumulated without limit. In the event of separation or termination, except for termination with cause, an employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.
- * There are other various types of leave available, but none of the unused leave can be accumulated.

The amount of accumulated benefits at March 31, 2006, was \$32,988, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$346,236 and the bank balance was \$402,658 of which \$402,658 was covered by federal depository insurance. The Housing Commission has \$175 in petty cash on hand.

Investments

The Housing Commission did have any investments as of March 31, 2006.

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market

accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

| | |
|--|-------------------|
| Cash on hand | \$ 175 |
| Carrying amount of deposits | 346,726 |
| Investments | <u>-</u> |
| Total | <u>\$ 346,901</u> |
| Cash and cash equivalents: | |
| Enterprise activities | \$ 402,833 |
| Enterprise activities - checks written in excess of deposits | <u>(55,932)</u> |
| Total | <u>\$ 346,901</u> |

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2006, the receivables were \$36,869 with \$30,325 estimated as uncollectible. Bad debt expense was \$18,000.

Accounts Receivables/Payables- HUD

Amounts due to HUD represents funding due from the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2006 were as follows:

| | |
|--------------------------------|-------------|
| Housing Choice Voucher Program | \$ <u>-</u> |
|--------------------------------|-------------|

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2006 were as follows:

| | |
|----------------------|------------------|
| Capital Fund Program | \$ <u>10,016</u> |
|----------------------|------------------|

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------------------|---------------------------------|------------------|------------------------------|
| Housing Choice Vouchers | \$ 102,299 | Low Rent Program | \$ 130,128 |
| Capital Fund Program | 8,632 | | |
| Low Rent Program | <u>19,197</u> | | <u> </u> |
| | <u>\$ 130,128</u> | | <u>\$ 130,128</u> |

The capital fund program transferred \$171,249 to the Low Rent Program and \$65,469 to the Housing Choice Voucher Program during the fiscal year ended March 31, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

| | <u>Balance</u> <u>03/31/05</u> | <u>Additions/Retirements/</u> <u>Transfers</u> | <u>Transfers</u> | <u>Balance</u> <u>03/31/06</u> |
|--|-----------------------------------|---|-------------------|-----------------------------------|
| Low Rent Program | | | | |
| Land | \$1,402,031 | \$ | \$ | \$1,402,031 |
| Buildings | 7,293,484 | | | 7,293,484 |
| Furniture, equip. & machinery - administration | 118,473 | 75,830 | | 194,303 |
| Building improvements | <u>8,423,213</u> | <u>642,366</u> | | <u>9,065,579</u> |
| | 17,237,201 | <u>\$ 718,196</u> | <u>\$</u> | 17,955,397 |
| Less accumulated depreciation | <u>(11,457,870)</u> | <u>\$(811,423)</u> | <u>\$</u> | <u>(12,269,293)</u> |
| Total | <u>\$5,779,331</u> | | | <u>\$5,686,104</u> |
| Capital Fund Program | | | | |
| Buildings | \$ | \$ 402,803 | \$ | \$ 402,803 |
| Furniture, equip. & machinery - administration | 75,830 | 116,291 | | 192,121 |
| Building improvements | | 60,000 | | 60,000 |
| Construction in progress | <u>1,311,140</u> | | <u>865,873</u> | <u>445,267</u> |
| | 1,386,970 | <u>\$ 579,094</u> | <u>\$ 865,873</u> | 1,100,191 |
| Less accumulated depreciation | <u>(37,125)</u> | <u>\$(44,272)</u> | <u>\$ 22,749</u> | <u>(58,648)</u> |
| Total | <u>\$1,349,845</u> | | | <u>\$1,041,543</u> |
| Combined Totals | | | | <u>\$6,727,647</u> |

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2006, consist of the following:

| | <u>Invested in</u> <u>Capital Assets</u> |
|---|---|
| Balance, beginning | \$ 7,129,176 |
| Investment in fixed assets, net of depreciation paid for from operations net of depreciation. | <u>(401,529)</u> |
| Balance, ending | <u>\$ 6,727,647</u> |

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 6: OTHER INFORMATION

A. Pension Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2005, the date of the last completed actuarial evaluation, the Housing Commission's present value of accrued benefits for retirement benefits was \$465,968. The valuation of assets to meet this obligation was \$675,644, therefore the overfunded amount is \$209,676. The Housing Commission computed employer contributions as a percentage of payroll of 3.72% for the fiscal year beginning April 1, 2007. The estimated employer retirement contributions will be \$12,420 for the fiscal year beginning April 1, 2007. There are ten(10) active members, no vested former members, and two(2) retirees and beneficiaries.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

| | |
|------------------------------------|-------------------|
| Check write offs from 2001 | \$ 10,245 |
| Undistributed debits from 2002 | (3,567) |
| Other accts payable from 2000 | 2,500 |
| Transfer CFP 501-2001 to low rent | 718,197 |
| Transfer CFP 501-2001 depreciation | (22,749) |
| | <u>\$ 704,626</u> |

Capital Fund Program

| | |
|------------------------------------|--------------------|
| Transfer CFP 501-2001 to low rent | \$(718,197) |
| Transfer CFP 501-2001 depreciation | 22,749 |
| | <u>\$(695,448)</u> |

Housing Choice Voucher Program

| | |
|--|--------------------|
| Write off accts. rec. from FYE 3/31/05 | \$(29,263) |
| Write off prior year checks per PHA | 2,205 |
| | <u>\$(27,058)</u> |

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2006, was as follows:

| | <u>Low Rent Program</u> | <u>Capital Fund Program</u> | <u>Housing Choice Voucher Program</u> |
|--|-----------------------------|-------------------------------------|---|
| Condensed Statement of Net Assets | | | |
| Current assets | \$ 330,732 | \$ 18,648 | \$ 162,649 |
| Property & equipment | 5,686,104 | 1,041,543 | |
| Total assets | <u>\$ 6,016,836</u> | <u>\$ 1,060,191</u> | <u>\$ 162,649</u> |
| Current liabilities | \$ 344,573 | \$ 18,648 | \$ |
| Noncurrent liabilities | | | |
| Total liabilities | <u>344,573</u> | <u>18,648</u> | |
| Net assets: | | | |
| Invested in capital assets | 5,686,104 | 1,041,543 | |
| Unrestricted net assets | (13,841) | | 162,649 |
| Total net assets | <u>5,672,263</u> | <u>1,041,543</u> | <u>162,649</u> |
| Total liabilities & net assets | <u>\$ 6,016,836</u> | <u>\$ 1,060,191</u> | <u>\$ 162,649</u> |

| | <u>Low Rent Program</u> | <u>Capital Fund Program</u> | <u>Housing Choice Voucher Program</u> |
|--|-----------------------------|-------------------------------------|---|
| Condensed Statement of Activities | | | |
| Dwelling and nondwelling rents | \$ 727,621 | \$ | \$ |
| Depreciation | (788,674) | (44,272) | |
| Other operating expenses | <u>(1,360,524)</u> | <u>(343,974)</u> | <u>(156,689)</u> |
| Operating(loss) | <u>(1,421,577)</u> | <u>(388,246)</u> | <u>(156,689)</u> |
| Nonoperating revenues: | | | |
| Investment earnings | 2,111 | | |
| Other income | 9,204 | | |
| Operating grants | 590,874 | 580,692 | 213,999 |
| Capital grants | | 431,418 | |
| Operating transfers | <u>171,249</u> | <u>(236,718)</u> | <u>65,469</u> |
| Change in net assets | <u>(648,139)</u> | <u>387,146</u> | <u>122,779</u> |
| Prior period adjustments | 704,626 | (695,448) | (27,058) |
| Beginning net assets | <u>5,615,776</u> | <u>1,349,845</u> | <u>66,928</u> |
| Ending net assets | <u>\$ 5,672,263</u> | <u>\$ 1,041,543</u> | <u>\$ 162,649</u> |

**Condensed Statement
of Cash Flows**

| | | | |
|--|-------------------|----------------------|-------------------|
| Net cash provided(used) by: | | | |
| Operating activities | \$ (650,822) | \$ (325,688) | \$ (154,675) |
| Noncapital financing activities | 760,684 | 325,688 | 215,025 |
| Investing activities | <u>18,451</u> | <u> </u> | <u> </u> |
| Net increase (decrease) | 128,313 | | 60,350 |
| Beginning cash and cash equivalents | <u>157,748</u> | <u> </u> | <u> </u> |
| Ending cash and cash equivalents | <u>\$ 286,061</u> | <u>\$ </u> | <u>\$ 60,350</u> |

NOTE 8: SCATTER SITE HOME PURCHASES

During the fiscal year ended March 31, 2006, the Housing Commission did not sell any scatter site homes. There are three homes left in inventory.

These monies are deposited in a savings account at Comerica Bank (account #1840357527). The balance in this savings account as of March 31, 2006 is \$47,335.73.

NOTE 9: SUBSEQUENT EVENTS

The Housing Commission has, as of October 17, 2005, a Management of Agreement (MOA) with HUD acting by and through the Cleveland Troubled Agency Recovery Center (TARC) to implement an "Improvement Plan" in the areas of governance, organization and staffing, finance and procurement, housing management, property maintenance, capital funds, security, and management information systems. As of the date of this report, according to the Executive Director, the Housing Commission has substantially completed the MOA, except in the area of finance.

The City of Muskegon Heights has recently filed a lawsuit against the Muskegon Heights Housing Commission for the payment of PILOT in the amount of \$104,764 that covers a four year period and some miscellaneous charges from prior years in the approximate amount of \$55,000. The Housing Commission has the PILOT set up as an account payable as of March 31, 2006, but has a disagreement with the City over the miscellaneous charges and curbside pickup charges from prior years and will defend itself against this lawsuit.

The Housing Commission obtained a loan in the amount of \$1,270,711 from Water & Energy Savings Corporation after the fiscal year ended. The first payment on the loan will be in May 2006. The Housing Commission entered into an Energy Performance Contract that will lower excessive use of utilities as residents will begin paying for utilities used over their allowance.

SUPPLEMENTARY INFORMATION

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 March 31, 2006
 =====

| | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------------|--|---|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 286,061 | \$ 10,016 |
| Accounts receivable-HUD | | |
| Accounts receivable-tenants | 36,869 | |
| Allowance for bad debts | (30,325) | |
| Prepaid expenses | 18,430 | |
| Inventories | 500 | |
| Due from other programs | <u>19,197</u> | <u>8,632</u> |
| Total current assets | <u>330,732</u> | <u>18,648</u> |
| Property and equipment: | | |
| Land | 1,402,031 | |
| Buildings | 7,293,484 | 402,803 |
| Equipment | 194,303 | 192,121 |
| Building improvements | 9,065,579 | 60,000 |
| Construction in progress | <u>445,267</u> | <u>445,267</u> |
| | 17,955,397 | 1,100,191 |
| Less accumulated depreciation | <u>(12,269,293)</u> | <u>(58,648)</u> |
| Net property and equipment | <u>5,686,104</u> | <u>1,041,543</u> |
| Total Assets | <u>\$ 6,016,836</u> | <u>\$1,060,191</u> |

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ 60,350 | \$ 346,411 |
| | 10,016 |
| | 36,869 |
| | (30,325) |
| | 18,430 |
| | 500 |
| <u>102,299</u> | <u>130,128</u> |
| <u>162,649</u> | <u>512,029</u> |
| | 1,402,031 |
| | 7,696,287 |
| | 386,424 |
| | 9,125,579 |
| | <u>445,267</u> |
| | 19,055,588 |
| | <u>(12,327,941)</u> |
| | <u>6,727,647</u> |
| <u>\$ 162,649</u> | <u>\$ 7,239,676</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 March 31, 2006
 =====

| | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-----------------------------------|--|---|
| LIABILITIES and NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 142,288 | \$ 18,648 |
| Tenant security deposit liability | 39,169 | |
| Accrued expenses | 32,988 | |
| Due to other programs | <u>130,128</u> | <u> </u> |
| Total current liabilities | 344,573 | 18,648 |
| Noncurrent liabilities: | | |
| Accrued compensated absences | <u> </u> | <u> </u> |
| Total liabilities | <u>344,573</u> | <u>18,648</u> |
| Net Assets: | | |
| Invested in capital assets | 5,686,104 | 1,041,543 |
| Unrestricted net assets | <u>(13,841)</u> | <u> </u> |
| Total net assets | <u>5,672,263</u> | <u>1,041,543</u> |
| Total Liabilities and Net Assets | <u>\$ 6,016,836</u> | <u>\$1,060,191</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

=====

| | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|--|--|---|
| OPERATING REVENUES: | | |
| Dwelling rent | \$ 654,468 | \$ |
| Nondwelling rent | <u>73,153</u> | <u></u> |
| Total operating revenues | <u>727,621</u> | <u></u> |
| OPERATING EXPENSES: | | |
| Administration | 363,609 | 95,104 |
| Tenant services | 969 | |
| Utilities | 359,848 | |
| Ordinary maintenance and operation | 455,312 | 248,870 |
| General expenses | 180,786 | |
| Housing assistance payments | | |
| Depreciation | <u>788,674</u> | <u>44,272</u> |
| Total operating expenses | <u>2,149,198</u> | <u>388,246</u> |
| Operating income(loss) | <u>(1,421,577)</u> | <u>(388,246)</u> |
| NONOPERATING REVENUES: | | |
| Operating transfers in (out) | 171,249 | (236,718) |
| Investment interest income | 2,111 | |
| Other income | 9,204 | |
| Capital grants | | 431,418 |
| Operating grants | <u>590,874</u> | <u>580,692</u> |
| Total nonoperating revenues | <u>773,438</u> | <u>775,392</u> |
| Change in net assets | (648,139) | 387,146 |
| Prior period adjustments, equity transfers and correction of errors | 704,626 | (695,448) |
| Net assets, beginning | <u>5,615,776</u> | <u>1,349,845</u> |
| Net assets, ending | <u>\$ 5,672,263</u> | <u>\$1,041,543</u> |

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ | \$ 654,468 |
| | <u>73,153</u> |
| | <u>727,621</u> |
| 19,197 | 477,910 |
| | 969 |
| | 359,848 |
| | 704,182 |
| 230 | 181,016 |
| 137,262 | 137,262 |
| | <u>832,946</u> |
| <u>156,689</u> | <u>2,694,133</u> |
| <u>(156,689)</u> | <u>(1,966,512)</u> |
| 65,469 | |
| | 2,111 |
| | 9,204 |
| | 431,418 |
| <u>213,999</u> | <u>1,385,565</u> |
| <u>279,468</u> | <u>1,828,298</u> |
| 122,779 | (138,214) |
| (27,058) | (17,880) |
| <u>66,928</u> | <u>7,032,549</u> |
| <u>\$ 162,649</u> | <u>\$ 6,876,455</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended March 31, 2006
=====

| | C-3018 Low Rent Program 14.850 | Capital Fund Program 14.872 |
|--|---|--------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from dwelling and nondwelling rents | \$ 706,881 | \$ |
| Cash payments to other suppliers of goods and services | (896,457) | (231,959) |
| Cash payments to employees for services | (461,246) | (93,729) |
| Cash payments in lieu of taxes | <u> </u> | <u> </u> |
| Net cash (used) by operating activities | <u>(650,822)</u> | <u>(325,688)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Tenant security deposits | 283 | |
| Due from/to other funds | (10,927) | (8,270) |
| Operating transfers in (out) | 171,249 | (236,718) |
| Operating grants | 590,874 | 570,676 |
| Other revenue | <u>9,205</u> | <u> </u> |
| Net cash provided by noncapital financing activities | <u>760,684</u> | <u>325,688</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital grants | | 431,418 |
| Payments for capital acquisitions | <u> </u> | <u>(431,418)</u> |
| Net cash provided by capital and related financing activities | <u> </u> | <u> </u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Restricted cash decreased | 16,340 | |
| Receipts of interest and dividends | <u>2,111</u> | <u> </u> |
| Net cash provided by investing activities | <u>18,451</u> | <u> </u> |
| Net increase(decrease) in cash | 128,313 | |
| Cash, beginning | <u>157,748</u> | <u> </u> |
| Cash, ending | <u>\$ 286,061</u> | <u>\$</u> |

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ | \$ 706,881 |
| (138,683) | (1,267,099) |
| (15,992) | (570,967) |
| <u>(154,675)</u> | <u>(1,131,185)</u> |
| | 283 |
| 19,197 | |
| 65,469 | |
| 130,359 | 1,291,909 |
| <u></u> | <u>9,205</u> |
| <u>215,025</u> | <u>1,301,397</u> |
| | 431,418 |
| <u></u> | <u>(431,418)</u> |
| <u></u> | <u></u> |
| | 16,340 |
| <u></u> | <u>2,111</u> |
| <u></u> | <u>18,451</u> |
| 60,350 | 188,663 |
| <u></u> | <u>157,748</u> |
| <u>\$ 60,350</u> | <u>\$ 346,411</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

| | |
|---------------|---------------|
| C-3018 | Capital |
| Low Rent | Fund |
| Program | Program |
| <u>14.850</u> | <u>14.872</u> |

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:**

| | | |
|---|-----------------------------|-----------------------------|
| Cash and cash equivalents per balance sheet | \$ 286,061 | \$ |
| Restricted cash | <u> </u> | <u> </u> |
| | <u>\$ 286,061</u> | <u>\$</u> |

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

| | | |
|--|----------------------|-----------------------------|
| Operating income(loss) | \$ (1,421,577) | \$ (388,246) |
| Adjustments to reconcile operating (loss) to net cash(used in) operating activities: | | |
| Depreciation | 788,674 | 44,272 |
| Bad debt allowance | 21,504 | |
| Adjustments | 9,178 | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable-tenants | (20,740) | |
| Prepaid expenses | 1,884 | |
| Increase (decrease) in liabilities: | | |
| Bank overdraft | | |
| Accounts payable | (53,699) | 18,648 |
| Accrued compensated absences | (2,260) | |
| Other current liabilities | (3,328) | |
| Deferred revenues | | (362) |
| Accounts payable-PILOT | <u>29,542</u> | <u> </u> |
| Net cash (used) by operating activities | <u>\$ (650,822)</u> | <u>\$ (325,688)</u> |

| | |
|--|--|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| | |
| \$ 60,350 | \$ 346,411 |
| <u>\$ 60,350</u> | <u>\$ 346,411</u> |
| | |
| \$ (156,689) | \$ (1,966,512) |
| | |
| 2,205 | 832,946 21,504 11,383 |
| | (20,740) 1,884 |
| (191) | (191) (35,051) (2,260) (3,328) (362) <u>29,542</u> |
| <u>\$ (154,675)</u> | <u>\$ (1,131,185)</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

| Fiscal Year | Federal Grantor | CFDA No. | Expenditures |
|----------------|--|----------|--------------------|
| | <u>U.S. Department of HUD</u> | | |
| | <u>Public and Indian Housing Major - Direct Program</u> | | |
| 2006 | Low Rent Public Housing | 14.850 | \$ 590,874 |
| | <u>Public and Indian Housing Major - Direct Program</u> | | |
| 2006 | Capital Fund Program | 14.872 | 1,012,110 |
| | <u>Low Income Public Housing Nonmajor Direct Program</u> | | |
| 2006 | Housing Choice Vouchers | 14.871 | <u>213,999</u> |
| | Total | | <u>\$1,816,983</u> |

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HEIGHTS HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2006

=====

| FDS Line Item No. | | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------|---|--|---|
| | ASSETS | | |
| | Current Assets: | | |
| | Cash: | | |
| 111 | Cash-unrestricted | \$ 246,892 | \$ |
| 114 | Cash-tenant security deposits | <u>39,169</u> | <u></u> |
| 100 | Total cash | <u>286,061</u> | <u></u> |
| | Receivables: | | |
| 122 | A/R-HUD other projects | | 10,016 |
| 126 | A/R-tenants-dwelling rents | 36,869 | |
| 126.1 | Allowance for doubtful accounts - dwelling rents | <u>(30,325)</u> | <u></u> |
| 120 | Total receivables, net of allowance for doubtful accounts | <u>6,544</u> | <u>10,016</u> |
| | Other Current Assets: | | |
| 142 | Prepaid expenses and other assets | 18,430 | |
| 143 | Inventories | 500 | |
| 144 | Interprogram due from | <u>19,197</u> | <u>8,632</u> |
| | Total other current assets | <u>38,127</u> | <u>8,632</u> |
| 150 | Total current assets | <u>330,732</u> | <u>18,648</u> |
| | Noncurrent Assets: | | |
| | Fixed Assets: | | |
| 161 | Land | 1,402,031 | |
| 162 | Buildings | 7,293,484 | 402,803 |
| 164 | Furn, equip & mach-admin. | 194,303 | 192,121 |
| 165 | Building improvements | 9,065,579 | 60,000 |
| 166 | Accumulated depreciation | (12,269,293) | (58,648) |
| 167 | Construction in progress | <u></u> | <u>445,267</u> |
| 160 | Total fixed assets, net of accumulated depreciation | <u>5,686,104</u> | <u>1,041,543</u> |
| 180 | Total noncurrent assets | <u>5,686,104</u> | <u>1,041,543</u> |
| 190 | Total Assets | <u>\$ 6,016,836</u> | <u>\$1,060,191</u> |

| | |
|--|---------------------|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| \$ 60,350 | \$ 307,242 |
| | <u>39,169</u> |
| <u>60,350</u> | <u>346,411</u> |
| | 10,016 |
| | 36,869 |
| | <u>(30,325)</u> |
| | <u>16,560</u> |
| | 18,430 |
| | 500 |
| <u>102,299</u> | <u>130,128</u> |
| <u>102,299</u> | <u>149,058</u> |
| <u>162,649</u> | <u>512,029</u> |
| | 1,402,031 |
| | 7,696,287 |
| | 386,424 |
| | 9,125,579 |
| | (12,327,941) |
| | <u>445,267</u> |
| | <u>6,727,647</u> |
| | <u>6,727,647</u> |
| <u>\$ 162,649</u> | <u>\$ 7,239,676</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2006

=====

| FDS Line Item No. | | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-----------------------------------|--------------------------------------|--|---|
| LIABILITIES and NET ASSETS | | | |
| | Liabilities: | | |
| | Current Liabilities: | | |
| 312 | Accounts payable>=90 days | \$ 37,524 | \$ 18,648 |
| 322 | Accrued compensated absences | 32,988 | |
| 333 | Accounts payable-other government | 104,764 | |
| 341 | Tenant security deposits | 39,169 | |
| 347 | Interprogram due to | <u>130,128</u> | |
| 310 | Total current liabilities | 344,573 | 18,648 |
| | Noncurrent Liabilities: | | |
| 354 | Accrued compensated absences | | |
| 300 | Total liabilities | <u>344,573</u> | <u>18,648</u> |
| | Net Assets: | | |
| 508.1 | Invested in capital assets | <u>5,686,104</u> | <u>1,041,543</u> |
| 508 | Total invested in capital assets | 5,686,104 | 1,041,543 |
| 512.1 | Unrestricted net assets | <u>(13,841)</u> | |
| 513 | Total Net Assets | <u>5,672,263</u> | <u>1,041,543</u> |
| 600 | Total Liabilities and Net Assets | <u>\$ 6,016,836</u> | <u>\$1,060,191</u> |

| | |
|--|---------------------|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| | |
| \$ | \$ 56,172 |
| | 32,988 |
| | 104,764 |
| | 39,169 |
| <u> </u> | <u>130,128</u> |
| | 363,221 |
| <u> </u> | <u> </u> |
| <u> </u> | <u>363,221</u> |
| <u> </u> | <u>6,727,647</u> |
| | 6,727,647 |
| <u>162,649</u> | <u>148,808</u> |
| <u>162,649</u> | <u>6,876,455</u> |
| <u>\$ 162,649</u> | <u>\$ 7,239,676</u> |

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2006

=====

| FDS Line Item No. | | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------|---|--|---|
| | Revenue: | | |
| 703 | Net tenant rental revenue | \$ 654,468 | \$ |
| 704 | Tenant revenue-other | <u>73,153</u> | |
| 705 | Total tenant revenue | 727,621 | |
| 706 | HUD PHA grants | 590,874 | 580,692 |
| 706.1 | Capital grants | | 431,418 |
| 711 | Investment income-unrestricted | 2,111 | |
| 715 | Other revenue | <u>9,204</u> | |
| 700 | Total revenue | <u>1,329,810</u> | <u>1,012,110</u> |
| | Expenses: | | |
| | Administrative: | | |
| 911 | Administrative salaries | 151,723 | 65,488 |
| 912 | Auditing fees | | 1,375 |
| 914 | Compensated absences | (2,261) | |
| 915 | Employee benefit contributions | | |
| | - administrative | 110,217 | 28,241 |
| 916 | Other operating-administrative | 103,930 | |
| | Tenant Services: | | |
| 924 | Tenant services-other | 969 | |
| | Utilities: | | |
| 931 | Water | 123,605 | |
| 932 | Electricity | 98,200 | |
| 933 | Gas | 138,043 | |
| | Ordinary maintenance and operation: | | |
| 941 | Ordinary maint & oper-labor | 169,813 | |
| 942 | Ordinary maint & oper-mat'ls & other | 80,025 | |
| 943 | Ordinary maint & oper-contract costs | 178,241 | 248,870 |
| 945 | Employee benefit contributions | 27,233 | |
| | General expenses: | | |
| 961 | Insurance premiums | 133,244 | |
| 962 | Other general expenses | | |
| 963 | Payments in lieu of taxes | 29,542 | |
| 964 | Bad debt - tenant rents | <u>18,000</u> | |
| 969 | Total operating expenses | <u>1,360,524</u> | <u>343,974</u> |

| | |
|---|------------|
| Housing Choice Vouchers 14.871 | Totals |
| \$ | \$ 654,468 |
| | 73,153 |
| | 727,621 |
| 213,999 | 1,385,565 |
| | 431,418 |
| | 2,111 |
| | 9,204 |
| 213,999 | 2,555,919 |
| 15,992 | 233,203 |
| | 1,375 |
| | (2,261) |
| | 138,458 |
| 3,205 | 107,135 |
| | 969 |
| | 123,605 |
| | 98,200 |
| | 138,043 |
| | 169,813 |
| | 80,025 |
| | 427,111 |
| | 27,233 |
| | 133,244 |
| 230 | 230 |
| | 29,542 |
| | 18,000 |
| 19,427 | 1,723,925 |

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2006

=====

| FDS Line Item No. | | C-3018 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------|--|--|---|
| 970 | Excess operating revenue over operating expenses | <u>(30,714)</u> | <u>668,136</u> |
| | Expenses continued: | | |
| | Other expenses: | | |
| 973 | Housing assistance payments | | |
| 974 | Depreciation expense | <u>788,674</u> | <u>44,272</u> |
| | Total other expenses | <u>788,674</u> | <u>44,272</u> |
| 900 | Total expenses | <u>2,149,198</u> | <u>388,246</u> |
| | Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses) | (819,388) | 623,864 |
| | Other Financing Sources(Uses): | | |
| 1001 | Operating transfers in (out) | <u>171,249</u> | <u>(236,718)</u> |
| 1000 | Excess (deficiency) of operating revenue over(under) expenses | (648,139) | 387,146 |
| 1103 | Beginning Net Assets | 5,615,776 | 1,349,845 |
| 1104 | Prior period adjustments, equity transfers and correction of errors | <u>704,626</u> | <u>(695,448)</u> |
| | Ending Net Assets | <u><u>\$5,672,263</u></u> | <u><u>\$1,041,543</u></u> |

| | |
|---|-----------------------------|
| Housing Choice Vouchers 14.871 | Totals |
| <u>194,572</u> | <u>831,994</u> |
| 137,262 | 137,262 |
| <u>137,262</u> | <u>832,946</u> |
| 156,689 | 970,208 |
| <u>156,689</u> | <u>2,694,133</u> |
| 57,310 | (138,214) |
| <u>65,469</u> | <u> </u> |
| 122,779 | (138,214) |
| 66,928 | 7,032,549 |
| <u>(27,058)</u> | <u>(17,880)</u> |
| <u>\$ 162,649</u> | <u>\$ 6,876,455</u> |

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

I have audited the financial statements of the business-type activities of the Muskegon Heights Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated December 21, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Muskegon Heights Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Smith, CPA, PC

December 21, 2006

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

Compliance

I have audited the compliance of the Muskegon Heights Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Heights Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Stankard, CPA, PC

December 21, 2006

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2006
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

| <u>CFDA Number</u> | <u>Federal Program</u> | <u>Amount Expended</u> | <u>Major Program</u> | <u>Compliance Requirement</u> | <u>Questioned Costs</u> | <u>Audit Finding</u> |
|--------------------|-------------------------|---------------------------|----------------------|-------------------------------|-------------------------|----------------------|
| 14.850 | Low Rent Public Housing | \$ 590,874 | Yes | O | N/A | N/A |
| 14.872 | Capital Fund Program | 1,012,110 | Yes | O | N/A | N/A |
| 14.871 | Housing Choice Vouchers | <u>213,999</u> | No | O | N/A | N/A |
| | Total | <u>\$1,816,983</u> | | | | |

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? No

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2006

=====

| | | |
|----|---|------|
| B. | Financial Statement Findings | None |
| C. | Federal Award Findings and Questioned Costs | None |

MUSKEGON HEIGHTS HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2006
=====

NONE

MUSKEGON HEIGHTS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2006
=====

Electronic
Submission
Line Number

Account Name

Debit

Credit

LOW RENT PROGRAM:

| | | | |
|-----|---------------------------|----------|----------|
| | (1) | | |
| 704 | Tenant revenue-other | \$ 2,412 | |
| 711 | Interest income | | \$ 2,412 |
| | To adjust interest income | | |
| | to the correct amount | | |
| | earned for the fiscal | | |
| | year. | | |

MUSKEGON HEIGHTS HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2006

MUSKEGON HEIGHTS HOUSING COMMISSION
CONTENTS
MARCH 31, 2006

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| Independent Auditors' Report on Management Advisory Comments | 3 |
| Management Advisory Comments | 4-5 |
| Adjusting Journal Entries | 6 |

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Muskegon Heights Housing Commission

I have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated December 21, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 6).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bam E. Auditt, CPA

December 21, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Muskegon Heights Housing Commission

I have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated December 21, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

December 21, 2006

MUSKEGON HEIGHTS HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
March 31, 2006

=====

Invoices

During our test of transactions for disbursements, there were eighteen(18) transactions that an invoice/documentation was not available. The population consisted of one hundred and thirty nine(139) disbursements.

I recommend that the Housing Commission be more diligent about attaching the invoice to the check copy before filing. All of these payments were first approved by HUD before payment.

Unauthorized Expenditure

The Housing Commission bought a floral arrangement for \$50 in June 2005 for someone who had departed.

The State of Michigan and the Federal Government does not allow flowers to the sick or departed to be purchased.

Petty Cash Disbursements

The Housing Commission reimbursed petty cash in the amount of \$87.18 on March 15, 2006, but there were no receipts attached for support.

I recommend that the Housing Commission obtain receipts for all petty cash disbursements and attach to the check copy before filing.

Tenant Files

We selected at random eleven(11) Low Rent and four(4) Housing Choice Voucher tenant files to thoroughly test. The results are as follows:

Low Rent Program

There were 2 tenant files missing a copy of photo IDs, 2 were missing copies of social security cards, 5 were missing the signed worksheet for the HUD-50058 form, 1 was missing the notice of rent adjustment, 1 was missing the privacy act notice, 3 had improper or missing verifications of income and expenses, 1 was missing the declaration of citizenship status, and 9 were missing proof that inspections were performed.

MUSKEGON HEIGHTS HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
March 31, 2006
=====

Tenant Files (continued)

Low Rent Program (continued)

We recommend that the new procedure of having the inspections performed by an outside firm be continued. It appears from further testing of the above tenants, that inspections were performed for the fiscal year ended March 31, 2007.

We also recommend that the occupancy clerks be more diligent in obtaining missing documentation at the annual reexaminations or interim reviews.

Housing Choice Voucher Program

There was 1 tenant file missing a private act notice, 1 was missing the declaration of citizenship, 1 was missing the rent reasonable test, 1 was missing the inspection report, and 1 was missing the proper verification of income and expenses.

Even though the exception rate was low, we recommend that the Housing Commission strive for no exceptions.

MUSKEGON HEIGHTS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2006

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Electronic
 Submission
Line Number

Account Name

Debit

Credit

**LOW RENT
 PROGRAM**

| | | | |
|-----|---------------------------|----------|----------|
| | (1) | | |
| 704 | Tenant revenue-other | \$ 2,412 | |
| 711 | Interest income | | \$ 2,412 |
| | To adjust interest income | | |
| | to the correct amount | | |
| | earned for the fiscal | | |
| | year. | | |